

## THE ADFA BOND GUARANTY PROGRAM

The Arkansas Development Finance Authority's (ADFA) Bond Guaranty Program was created by the State Legislative Act 505 of 1985. It is a credit enhancement tool utilized for qualified applicants to support the issuance of Industrial Development Bonds by the Authority. By virtue of the guaranty enhancement, lower bond rates are secured on the long term tax-exempt bonds providing for lower interest costs to the borrower.

ADFA is focusing the Guaranty Program towards Industrial/Manufacturing/Agricultural enterprises, specifically to assist in their acquisitions of land, buildings, machinery and equipment through cost effective financing.

Applicant/borrowers, encompassing all structures of businesses inclusive of IRS Code 501 (c) (3) and governmental corporations, qualify for consideration by ADFA whether expanding existing facilities or developing new facilities and whether the applicant is an Arkansas company or an out-of-state company relocating or developing new operations in Arkansas.

The program applicants are requested initially to arrange a discovery interview with ADFA where preliminary data, project description, explanation of financing request, and current financial statements on borrowing entities will be reviewed for the Guaranty Program consideration.

The important areas of consideration in the approval process require that applicants: (1) demonstrate reasonable assurance of debt repayment from operations; (2) agree to comply with all rules and regulations of the Authority throughout the guaranty term; and (3) demonstrate and document that increased employment opportunities will evolve from the project.

The program guaranty limits extend generally from a minimum of \$200,000 to a maximum of \$6,000,000. The project portion funded from bond proceeds is limited to 90% (lower of cost or appraised value) for existing facilities or new construction and/or for equipment. For start-up operations the project portion funded from bond proceeds drops to 70-80% of the qualified expenditures.

Fixed and/or variable bond rates may be applicable subject to Authority approval as negotiated with bond purchasers. The terms extended may not exceed 120% of the economic useful life of financed assets.

The appropriate ADFA fee costs are as follows:

- A. Guaranty Fee - One time maximum 5% of guaranty amount.
- B. Annual Servicing Fee - 1/8% of bonds outstanding charged annually.

Following qualification of the project and approval of the Bond Guaranty by the ADFA Board, the applicant will be forwarded a commitment letter outlining the terms, conditions and requirements regarding the financing of the project.

Subsequent to the issuance of the ADFA's commitment letter, drafting of appropriate documentation will be finalized and loan closing dates will be established.

